

CITY OF SARATOGA SPRINGS

FINANCIAL STATEMENTS

JUNE 30, 2005

CITY OF SARATOGA SPRINGS
TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2-8
<u>Basic Financial Statements</u>	
Statement of Net Assets.....	9
Statement of Activities.....	10
Governmental Funds	
Balance Sheet.....	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances.....	13
Reconciliation of the Statement of Revenues, Expenses, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	14
Proprietary Funds	
Statement of Net Assets.....	15
Statement of Revenues, Expenditures and Changes in Fund Net Assets.....	16
Statement of Cash Flows.....	17-18
Notes to Financial Statements.....	19-36
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget & Actual – General Fund.....	37
Other Reports	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Independent Auditor's Report on Legal Compliance with Applicable Utah State Laws and Regulations.....	39-40

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Saratoga Springs
Saratoga Springs, UT

January 24, 2006

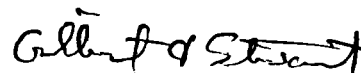
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Saratoga Springs (City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Saratoga Springs as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated January 24, 2006 on our consideration of City of Saratoga Springs's internal control structure over financial reporting and on our test of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to decide the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the Table of Contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Saratoga Springs, we offer readers of the City of Saratoga Springs financial statements this narrative overview and analysis of the financial activities of The City of Saratoga Springs for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The total assets of the City of Saratoga Springs exceeded its liabilities at the close of the most recent fiscal year by \$70,144,417 (net assets).
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,903,403. Of this amount \$951,142 (16%) is available for spending at the government's discretion (unreserved fund balance).
- The total net assets of \$70,144,417 is made up of \$62,536,609 in capital assets net of related debt and \$7,607,808 in other net assets.

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to the City of Saratoga Springs basic financial statements. The City of Saratoga Springs basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Saratoga Springs finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the City of Saratoga Springs assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of The City of Saratoga Springs is improving or deteriorating.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Saratoga Springs that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 9 & 10 of this report.

Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Saratoga Springs also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on 11-14 of this report.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund, the Capital Projects Fund, and the Street Lighting Special Revenue Fund. The balance of the governmental funds is determined to be non-major and is included in the combined statements within this report.

- **Proprietary funds** - The City of Saratoga Springs maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Saratoga Springs uses proprietary funds to account for its Water Utility, Sewer Utility, and Garbage Utility.

The basic proprietary fund financial statements can be found on pages 15-18 of this report.

Government-Wide Financial Analysis

By far the largest portion of the City of Saratoga Springs net assets (82%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Saratoga Springs Net Assets

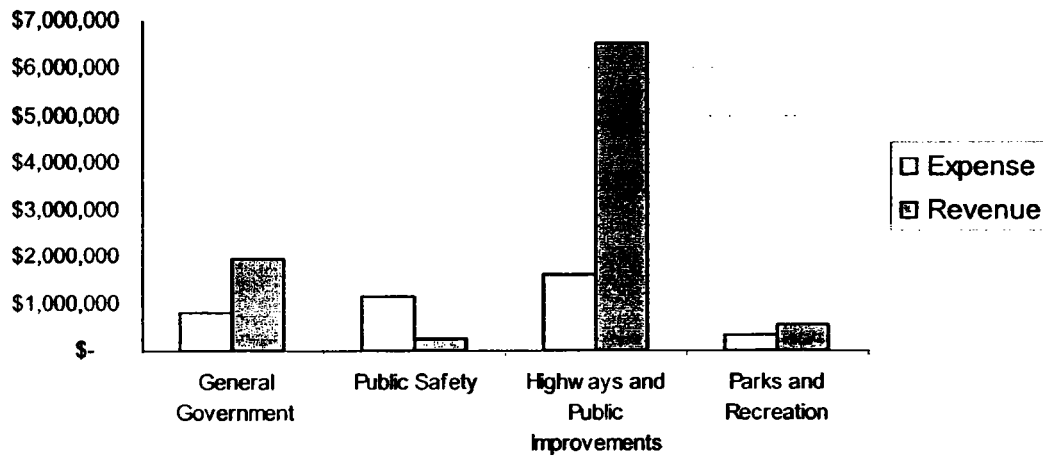
	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	\$ 5,119,010	\$ 8,000,821	\$ 868,517	\$ 1,871,225	\$ 5,987,527	\$ 9,872,046
Capital assets	25,955,904	32,004,599	29,044,742	34,067,536	55,000,646	66,072,135
Total assets	31,074,914	40,005,420	29,913,259	35,938,761	60,988,173	75,944,181
Long-term debt outstanding	56,090	1,405,365	2,244,000	2,181,000	2,300,090	3,586,365
Other liabilities	965,488	2,055,320	87,318	158,079	1,052,806	2,213,399
Total liabilities	1,021,578	3,460,685	2,331,318	2,339,079	3,352,896	5,799,764
Net assets:						
Invested in capital assets, net of related debt	25,899,814	30,518,073	26,800,742	32,018,536	52,700,556	62,536,609
Restricted	3,544,954	4,952,261	687,687	1,664,985	4,232,641	6,617,246
Unrestricted	608,568	1,074,401	93,512	-83,839	702,080	990,562
Total net assets	\$30,053,336	\$36,544,735	\$27,581,941	\$33,599,682	\$57,635,277	\$70,144,417

City of Saratoga Springs Changes in Net Assets

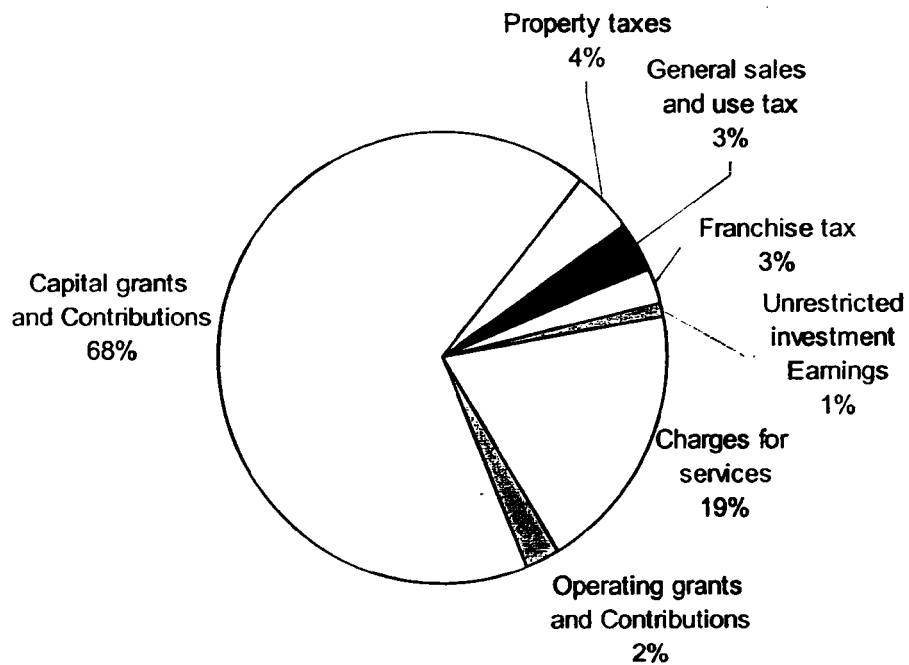
	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 3,018,029	\$ 2,016,061	\$ 1,686,609	\$ 3,236,525	\$ 4,704,638	\$ 5,252,586
Operating grants and Contributions	179,829	249,690	0	0	179,829	249,690
Capital grants and Contributions	3,671,637	7,028,447	7,244,451	5,597,732	10,916,088	12,626,179
General Revenues:						
Property taxes	318,663	472,781			318,663	472,781
General sales and use tax	317,432	359,176			317,432	359,176
Franchise tax	202,769	268,661			202,769	268,661
Unrestricted investment Earnings	48,605	120,280	9,450	26,796	58,055	147,076
Transfers	-134,205	0	134,205	0	0	0
Total revenues	7,622,759	10,515,096	9,074,715	8,861,053	16,697,474	19,376,149
Expenses:						
General Government	868,733	829,609			868,733	829,609
Public safety	742,703	1,169,177			742,703	1,169,177
Highways and public improvements	1,265,417	1,638,328			1,265,417	1,638,328
Parks and recreation	294,951	346,692			294,951	346,692
Interest on long-term debt	1,415	39,891			1,415	39,891
Water utility			1,201,389	1,736,325	1,201,389	1,736,325
Sewer utility			633,389	839,375	633,389	839,375
Garbage Utility			202,049	267,612	202,049	267,612
Total expenses	3,173,219	4,023,697	2,036,827	2,843,312	5,210,046	6,867,009
Increase in net assets	4,449,540	6,491,399	7,037,888	6,017,741	11,487,428	12,509,140
Net assets - beginning	25,603,796	30,053,336	20,544,053	27,581,941	46,147,849	57,635,277
Net assets - ending	\$30,053,336	\$36,544,735	\$27,581,941	\$33,599,682	\$57,635,277	\$70,144,417

The following graphs display the government-wide activities for governmental activities reflected in the above tables:

Expenses and Program Revenues - Governmental Activities

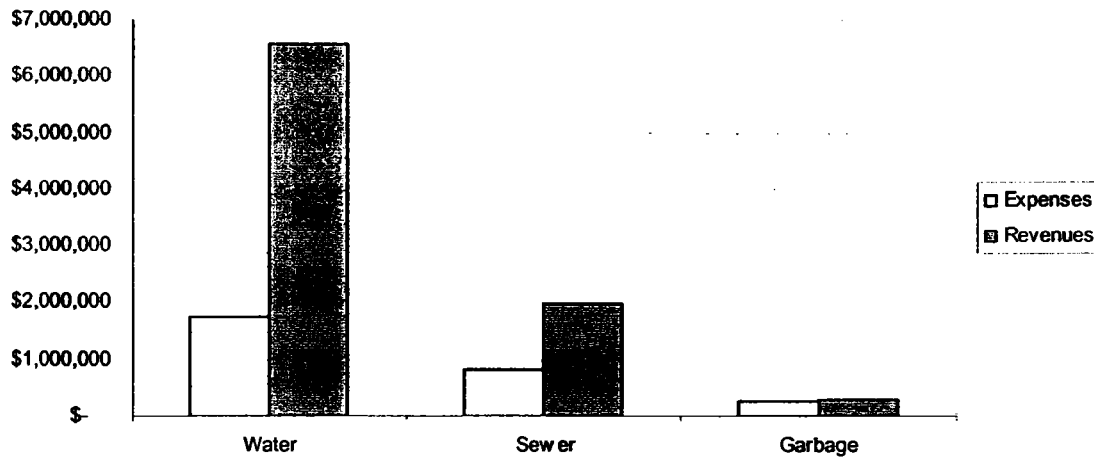


Revenues by Source - Governmental Activities

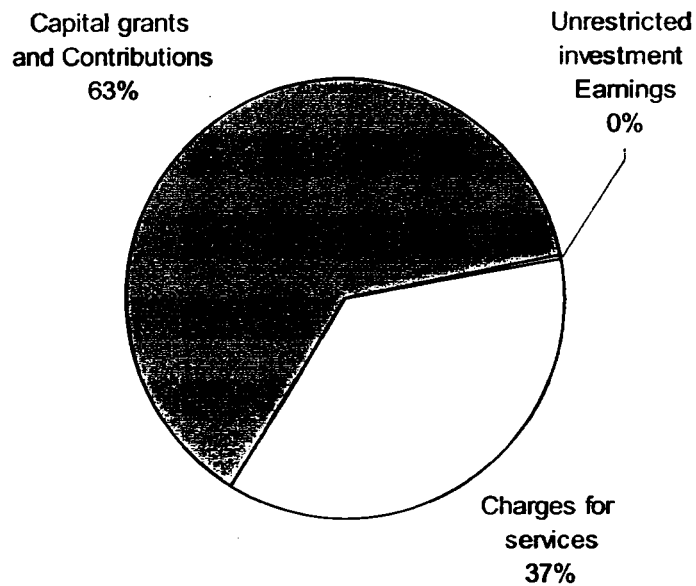


Business-type activities. Business-type activities increased the City's net assets by \$6,017,741. As of the end of the current fiscal year, all of the City's business-type funds reported positive net assets.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$5,903,403. \$951,142 of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$693,258, while total fund balance reached \$987,008. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.44% of total general fund expenditures, while total fund balance represents 23.41% of that same amount.

The capital projects fund has a total fund balance of \$4,874,907, all of which is designated for the payment of capital improvement projects.

The City maintains proprietary funds to account for the business-type activities of the City. The information for the funds can be found on pages 15-18 of the basic financial statements.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was amended from an original budget expenditure total of \$2,642,631 to a final budget of \$4,390,765, an increase of \$1,748,134. These increases can be briefly summarized as follows:

- \$1,329,214 in miscellaneous increases in general government activities.
- \$229,733 in increases allocated to Fire and Police services
- \$101,514 in increases allocated to highways, public works services, and engineering consulting.
- \$11,218 in increases allocated to Leisure Service programs, recreation, parks, etc.
- \$76,455 increases allocated to Debt Service

Of these increases, \$122,900 was funded by additional tax collections from sales, property and franchise taxes. \$87,950 increases in building permit fee collections. \$102,191 increases in federal and state grants. \$367,159 increases in development related fees. \$37,200 in additional miscellaneous revenue increases.

Capital Assets and Debt Administration

Capital Assets. The City of Saratoga Springs investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$66,072,135 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, construction in progress, and water rights. The total increase in the City's investment in fixed assets for the current year was 22% (22% increase in governmental activities and a 22% for business type activities).

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total bonded debt outstanding of \$3,586,365. Of this amount \$2,115,000 is debt that is secured solely by specific revenue sources (i.e., revenue bonds).

The City's total outstanding debt increased by \$1,286,275 during the current fiscal year. The key factor in this increase is a lease the City entered into to purchase new City office space.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Request for Information

This financial report is designed to provide a general overview of the City of Saratoga Springs' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The City of Saratoga Springs, City Manager, 1307 N Commerce Dr, Suite 200, Saratoga Springs, UT, 84043.

BASIC FINANCIAL STATEMENTS

CITY OF SARATOGA SPRINGS

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 6,984,256	\$ 1,645,720	\$ 8,629,976
Cash - Restricted	-	256,724	256,724
Receivables - net	599,850	314,253	914,103
Internal Balances	404,085	(404,085)	-
Prepaid expenses	12,630	-	12,630
Deferred bond financing cost - net	-	58,613	58,613
Capital assets (net of accumulated depreciation):			
Land	7,358,407	-	7,358,407
Buildings	1,267,762	-	1,267,762
Improvements and Infrastructure	22,844,710	23,951,586	46,796,296
Equipment	452,559	177,551	630,110
Construction in Progress	81,161	-	81,161
Water Rights, Stock, and Capacity	-	9,938,399	9,938,399
Total assets	<u>40,005,420</u>	<u>35,938,761</u>	<u>75,944,181</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,669,918	91,266	1,761,184
Bond interest payable	-	40,665	40,665
Deposits	-	26,148	26,148
Deferred revenue - property taxes	385,402	-	385,402
Noncurrent Liabilities			
Due within one year	66,074	66,000	132,074
Due in more than one year	1,339,291	2,115,000	3,454,291
Total liabilities	<u>3,460,685</u>	<u>2,339,079</u>	<u>5,799,764</u>
NET ASSETS			
Invested in capital assets, net of related debt	30,518,073	32,018,536	62,536,609
Restricted for Roads and Impact Fees	4,548,176	1,664,985	6,213,161
Restricted for Advance to Other Fund	404,085	-	404,085
Unrestricted	<u>1,074,401</u>	<u>(83,839)</u>	<u>990,562</u>
Total net assets	<u>\$ 36,544,735</u>	<u>\$ 33,599,682</u>	<u>\$ 70,144,417</u>

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS

Statement of Activities

For the Year Ended June 30, 2005

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government		
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 829,609	\$ 1,944,629	\$ -	\$ -	\$ 1,115,020	\$ -	\$ 1,115,020
Public safety	1,169,177	-	48,934	214,110	(906,133)	-	(906,133)
Highways and public improvements	1,638,328	71,432	170,504	6,302,245	4,905,853	-	4,905,853
Parks and recreation	346,692	-	30,252	512,092	195,652	-	195,652
Interest on long-term debt	39,891	-	-	-	(39,891)	-	(39,891)
Total governmental activities	<u>4,023,697</u>	<u>2,016,061</u>	<u>249,690</u>	<u>7,028,447</u>	<u>5,270,501</u>	<u>-</u>	<u>5,270,501</u>
Business-type activities:							
Water Utility	1,736,325	1,925,323	-	4,642,707	-	4,831,705	4,831,705
Sewer Utility	839,375	1,027,164	-	955,025	-	1,142,814	1,142,814
Garbage Utility	267,612	284,038	-	-	-	16,426	16,426
Total business-type activities	<u>2,843,312</u>	<u>3,236,525</u>	<u>-</u>	<u>5,597,732</u>	<u>-</u>	<u>5,990,945</u>	<u>5,990,945</u>
Total primary government	<u>\$ 6,867,009</u>	<u>\$ 5,252,586</u>	<u>\$ 249,690</u>	<u>\$12,626,179</u>	<u>5,270,501</u>	<u>5,990,945</u>	<u>11,261,446</u>
General revenues:							
Property taxes					472,781	-	472,781
General sales and use tax					359,176	-	359,176
Franchise tax					268,661	-	268,661
Unrestricted investment earnings					120,280	26,796	147,076
Total general revenues					<u>1,220,898</u>	<u>26,796</u>	<u>1,247,694</u>
Change in net assets					<u>6,491,399</u>	<u>6,017,741</u>	<u>12,509,140</u>
Net assets - beginning					<u>30,053,336</u>	<u>27,581,941</u>	<u>57,635,277</u>
Net assets - ending					<u>\$36,544,735</u>	<u>\$33,599,682</u>	<u>\$70,144,417</u>

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS

Balance Sheet Governmental Funds June 30, 2005

	General Fund	Capital Project Fund	Non-Major Special Revenue Street Lighting SID	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,481,335	\$ 4,470,822	\$ 32,099	\$ 6,984,256
Receivables (net):				
Property tax	444,681	-	-	444,681
Sales tax	65,072	-	-	65,072
Other	16,198	-	9,810	26,008
Intergovernmental	64,089	-	-	64,089
Prepaid expense	12,630	-	-	12,630
Advance receivable - interfund	-	404,085	-	404,085
Total assets	<u>\$ 3,084,005</u>	<u>\$ 4,874,907</u>	<u>\$ 41,909</u>	<u>\$ 8,000,821</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable & accrued liabilities	\$ 1,669,497	\$ -	\$ 421	\$ 1,669,918
Deferred revenue	427,500	-	-	427,500
Total liabilities	<u>2,096,997</u>	<u>-</u>	<u>421</u>	<u>2,097,418</u>
Fund Balances:				
Fund balances reserved for:				
Roads and impact fees	293,750	4,254,426	-	4,548,176
Advance to sewer fund	-	404,085	-	404,085
Unreserved, reported in:				
General Fund	693,258	-	-	693,258
Special Revenue Funds	-	-	41,488	41,488
Capital Project Fund	-	216,396	-	216,396
Total fund balances	<u>987,008</u>	<u>4,874,907</u>	<u>41,488</u>	<u>5,903,403</u>
Total liabilities and fund balances	<u>\$ 3,084,005</u>	<u>\$ 4,874,907</u>	<u>\$ 41,909</u>	<u>\$ 8,000,821</u>

The notes are an integral part of the financial statements..

CITY OF SARATOGA SPRINGS
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
For the Year Ended June 30, 2005

Total fund balances - governmental fund types:	\$ 5,903,403
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,004,599
Property taxes levied in prior years but not yet received are reported as deferred revenue in the governmental funds, but are recorded as revenues in the prior year net assets in the statement of activities.	42,098
Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,405,365)</u>
Net assets of government activities	<u><u>\$ 36,544,735</u></u>

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Capital Project Fund	Non-Major Special Revenue Street Lighting SID	Total Governmental Funds
REVENUES				
Taxes	\$ 1,119,415	\$ -	\$ -	\$ 1,119,415
Licenses and permits	674,756	-	-	674,756
Intergovernmental	204,890	-	-	204,890
Charges for services	1,307,089	-	71,432	1,378,521
Impact fees	-	1,607,444	-	1,607,444
Miscellaneous revenue	57,342	70,522	-	127,864
Total revenues	<u>3,363,492</u>	<u>1,677,966</u>	<u>71,432</u>	<u>5,112,890</u>
EXPENDITURES				
Current:				
General government	2,131,993	-	-	2,131,993
Public safety	1,178,956	73,141	-	1,252,097
Highways and public improvements	690,197	175,748	37,837	903,782
Parks and recreation	139,956	183,670	-	323,626
Debt service:				
Principal retirement	36,846	-	9,500	46,346
Interest and fiscal charges	39,091	-	800	39,891
Total expenditures	<u>4,217,039</u>	<u>432,559</u>	<u>48,137</u>	<u>4,697,735</u>
Excess revenues over (under) expenditures	<u>(853,547)</u>	<u>1,245,407</u>	<u>23,295</u>	<u>415,155</u>
Other financing sources (uses)				
Capital Lease Proceeds	1,395,621	-	-	1,395,621
Transfers in	-	428,681	-	428,681
Transfers out	(428,681)	-	-	(428,681)
Total other financing sources and uses	<u>966,940</u>	<u>428,681</u>	<u>-</u>	<u>1,395,621</u>
Net change in fund balance	<u>113,393</u>	<u>1,674,088</u>	<u>23,295</u>	<u>1,810,776</u>
Fund balances - beginning of year	<u>873,615</u>	<u>3,200,819</u>	<u>18,193</u>	<u>4,092,627</u>
Fund balances - end of year	<u>\$ 987,008</u>	<u>\$ 4,874,907</u>	<u>\$ 41,488</u>	<u>\$ 5,903,403</u>

The note are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 1,810,776
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	627,692
Contributions of capital assets not reported in the funds.	5,421,003
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(18,797)
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>(1,349,275)</u>
Change in net assets of governmental activities	<u><u>\$ 6,491,399</u></u>

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Non-Major Garbage Utility	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 502,542	\$ 1,143,178	\$ -	\$ 1,645,720
Accounts receivable - net	134,907	140,321	39,025	314,253
Due From Other Funds	525	-	-	525
Total current assets	<u>637,974</u>	<u>1,283,499</u>	<u>39,025</u>	<u>1,960,498</u>
Noncurrent assets:				
Restricted cash and cash equivalents	256,724	-	-	256,724
Land, equipment, buildings and improv.	18,011,768	8,938,719	-	26,950,487
Less: Accumulated depreciation	(1,995,609)	(825,741)	-	(2,821,350)
Water Rights, Stock and Capacity	9,938,399	-	-	9,938,399
Deferred bond financing costs - net	58,613	-	-	58,613
Total noncurrent assets	<u>26,269,895</u>	<u>8,112,978</u>	<u>-</u>	<u>34,382,873</u>
Total assets	<u>\$ 26,907,869</u>	<u>\$ 9,396,477</u>	<u>\$ 39,025</u>	<u>\$ 36,343,371</u>
LIABILITIES				
Current liabilities:				
Accounts payable & accrued liabilities	\$ 125,759	\$ 4,531	\$ 1,641	\$ 131,931
Due to Other Funds	-	-	525	525
Deposits	26,148	-	-	26,148
Revenue Bonds Payable	66,000	-	-	66,000
Total current liabilities	<u>217,907</u>	<u>4,531</u>	<u>2,166</u>	<u>224,604</u>
Noncurrent liabilities:				
Advance from Capital Projects Fund	-	404,085	-	404,085
Revenue Bonds Payable	2,115,000	-	-	2,115,000
Total noncurrent liabilities	<u>2,115,000</u>	<u>404,085</u>	<u>-</u>	<u>2,519,085</u>
Total liabilities	<u>2,332,907</u>	<u>408,616</u>	<u>2,166</u>	<u>2,743,689</u>
Net Assets:				
Invested in cap assets, net of related debt	23,773,558	8,112,977	-	31,886,535
Restricted for impact fees	669,415	995,570	-	1,664,985
Reserved for purchase of water rights	146,924	-	-	146,924
Unrestricted	(14,935)	(120,686)	36,859	(98,762)
Total net assets	<u>\$ 24,574,962</u>	<u>\$ 8,987,861</u>	<u>\$ 36,859</u>	<u>\$ 33,599,682</u>

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Non-Major Garbage Utility	
Operating revenues:				
Charges for Services	\$ -	\$ 584,039	\$ 284,038	\$ 868,077
Water Charges for services pledged as security for revenue bonds	824,873	-	-	824,873
Fees and Miscellaneous	39,580	-	-	39,580
Total operating revenues	864,453	584,039	284,038	1,732,530
Operating expenses:				
Personnel	153,610	103,342	7,149	264,101
Supplies and Maintenance	412,226	61,990	-	474,216
Power and Heating	192,060	13,387	-	205,447
Professional Services	261,653	144,709	-	406,362
Depreciation	562,154	287,449	-	849,603
Miscellaneous	24,079	17,924	4,413	46,416
Charges for Treatment and Sanitation		210,574	256,050	466,624
Amortization of bond financing costs	6,763	-	-	6,763
Total operating expenses	1,612,545	839,375	267,612	2,719,532
Operating income	(748,092)	(255,336)	16,426	(987,002)
Nonoperating revenues (expenses):				
Interest revenue	9,678	17,118	-	26,796
Impact Fees	1,060,870	443,125	-	1,503,995
Interest expense and fiscal charges	(123,780)	-	-	(123,780)
Total nonoperating revenues (expenses)	946,768	460,243	-	1,407,011
Net income (Loss) before contributions and transfers	198,676	204,907	16,426	420,009
Developers Contributions	4,642,707	955,025	-	5,597,732
Transfers out	(41,727)	-	-	(41,727)
Transfers in	-	41,727	-	41,727
Change in net assets	4,799,656	1,201,659	16,426	6,017,741
Total net assets - beginning	19,775,306	7,786,202	20,433	27,581,941
Total net assets - ending	\$ 24,574,962	\$ 8,987,861	\$ 36,859	\$ 33,599,682

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Non-Major Garbage Utility	
Cash Flows From Operating Activities				
Receipts from customers	\$ 870,746	\$ 491,710	\$ 276,853	\$ 1,639,309
Payments to suppliers	(826,139)	(453,019)	(260,463)	(1,539,621)
Payments (to) from other funds	(184,520)	195,402	(10,882)	-
Payments to employees	(146,868)	(98,811)	(5,508)	(251,187)
Net cash provided (used) by operating activities	(286,781)	135,282	-	(151,499)
Cash Flows From Noncapital Financing Activities				
Transfers from/to other funds	32,005	(32,005)	-	-
Cash Flows From Capital and Related Financing Activities				
Impact fees	1,060,870	443,125	-	1,503,995
Purchases of capital assets	(1,302,569)	(151,794)	-	(1,454,363)
Proceeds from new debt	-	-	-	-
Principal paid on debt	(63,000)	-	-	(63,000)
Interest paid on capital debt	(125,377)	-	-	(125,377)
Proceeds from developers	1,179,698	-	-	1,179,698
Net cash provided (used) by capital and related financing activities	749,622	291,331	-	1,040,953
Cash Flows From Investing Activities				
Interest and dividends received	9,678	17,118	-	26,796
Net cash provided (used) by investing activities	9,678	17,118	-	26,796
Net increase (decrease) in cash and cash equivalents	504,524	411,726	-	916,250
Cash and cash equivalents - beginning	254,742	731,452	-	986,194
Cash and cash equivalents - end	\$ 759,266	\$ 1,143,178	\$ -	\$ 1,902,444

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Non-Major Garbage Utility	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ (748,092)	\$ (255,336)	\$ 16,426	\$ (987,002)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	562,154	287,449	-	849,603
Amortization expense	6,763	-	-	6,763
(Increase) decrease in accounts receivable	6,293	(92,329)	(7,185)	(93,221)
(Increase) decrease in due from other funds	(184,520)	-	(10,882)	(195,402)
Increase (decrease) in due to other funds	-	195,402	-	195,402
Increase (decrease) in accounts payable	70,621	96	1,641	72,358
Total adjustments	461,311	390,618	(16,426)	835,503
Net cash provided (used) by operating activities	\$ (286,781)	\$ 135,282	\$ -	\$ (151,499)

Supplementary information:

Non-cash items from capital and related financing activities include contributions by developers to the water system of \$3,463,009 and to the sewer system of \$955,025.

The notes are an integral part of the financial statements.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Saratoga Springs' (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

City of Saratoga Springs was incorporated December 30, 1997 under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a City Manager, who is also the City's Budget Officer. The City Manager is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Highways and Public Improvements, Water, Sewer and Sanitation, Planning and Zoning, and General Administrative Services

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (*Continued*)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital improvements other than those financed by the enterprise funds.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City’s water operations.

The *sewer fund* accounts for the activities of the City’s sewer operations.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (*Continued*)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

The *Special Revenue Fund* accounts for the activities of the Street Lighting Special Improvement District.

The *Garbage Utility Fund* accounts for the activities of the City's sanitation operations.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

2. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/due from other funds".

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services. Cash received from developers for the construction of a water and sewer system is also classified as restricted.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY *(Continued)*

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25
Improvements other than buildings	15-30
Infrastructure	30
Machinery and equipment	5-10

6. Compensated absences

City employees accrue earned vacation throughout the year. Unpaid vacation expires at the end of the calendar year. All vacation pay is accrued when incurred. A liability for these amounts is reported in the financial statements.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY *(Continued)*

are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$32,905,116
Accumulated depreciation	<u>(2,966,679)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$29,938,437</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$ 357,918
Depreciation expense	<u>(1,081,840)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>(\$ 723,922)</u>

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – RECONCILIATION (*Continued*)

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

Debt issued or retired:

Principal paid on bonds and capital leases

\$ 46,346

Issuance of long-term debt

(1,395,621)

Total debt incurred

(\$1,349,275)

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City amended the budget using the above procedures.

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2005</u>
Checking & Savings Accounts	Insured	\$ -
Checking & Savings Accounts	Uninsured and Uncollateralized	1,244,490
		<u>\$1,244,490</u>

B. Investments

The City's investments are managed through participation in the State Public Treasurers' Investment Fund. The City also has funds in bond accounts at US Bank invested in money market mutual funds and at Wells Fargo invested in the Public Treasurer's Investment Fund. As of June 30, 2005 The City had the following investments:

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – CASH (Continued)

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	57 days average	<u>\$7,770,946</u>

Investments–Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments–Credit Risk. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits. U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

At June 30 2005, the City had the following quality ratings:

<u>Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Utah Public Treasurer's Investment Fund	\$ 7,770,946	\$ -	\$ -	\$ -	\$ 7,770,946

Investments–Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water	Sewer	NonMajor Enterprise	Non major Governmental	Total
Receivables:						
Accounts	\$ -	\$137,907	\$142,321	\$41,025	\$ 0	\$321,253
Property Tax	444,681					444,681
Sales Tax	65,072					65,072
Other	16,198				9,810	26,008
Intergovernmental	64,089					64,089
Less: Allowance for uncollectible accounts		(3,000)	(2,000)	(2,000)		(7,000)
Total	<u>\$ 590,040</u>	<u>\$134,907</u>	<u>\$140,321</u>	<u>\$39,025</u>	<u>\$ 9,810</u>	<u>\$ 914,103</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	<u>\$427,500</u>	<u>\$ -</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of year end is as follows:

Due to/from other funds and advances:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility	Garbage Utility	\$ 525
Capital Project Fund - Advance	Sewer Utility	404,085
Total		<u>\$ 404,610</u>

	<u>Transfer In:</u>	
	<u>Capital Project</u>	<u>Sewer Utility</u>
Transfer Out:		
General Fund	<u>\$428,681</u>	
Water Utility		<u>\$41,727</u>

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 – INTERFUND (Continued)

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The advance from the Capital Projects Fund to the Sewer Fund is not expected to be repaid within one year.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Construction in Process	\$ -	\$ 81,161	\$ -	\$ 81,161
Land	5,794,407	1,564,000	-	7,358,407
Total capital assets not being depreciated	5,794,407	1,645,161	-	7,439,568
Capital assets being depreciated:				
Buildings	209,868	1,136,024	-	1,345,892
Machinery and equipment	201,293	413,235	-	614,528
Infrastructure	21,635,175	3,907,800	-	25,542,975
Total capital assets being depreciated	22,046,336	5,457,059	-	27,503,395
Less accumulated depreciation for:				
Buildings	40,662	37,468	-	78,130
Machinery and equipment	71,196	90,773	-	161,969
Infrastructure	1,772,981	925,284	-	2,698,265
Total accumulated depreciation	1,884,839	1,053,525	-	2,938,364
Total capital assets, being depreciated, net	20,161,497	4,403,534	-	24,565,031
Governmental activities capital assets, net	\$ 25,955,904	\$ 6,048,695	\$ -	\$ 32,004,599
Business-type activities:	Beginning	Increases	Decreases	Ending
	Balance			Balance
Capital assets not being depreciated:				
Water Shares	\$ 5,421,990	\$ 2,065,421	\$ -	\$ 7,487,411
Water Capacities	2,450,988	-	-	2,450,988
Total capital assets not being depreciated	7,872,978	2,065,421	-	9,938,399
Capital assets being depreciated:				
Improvements	22,900,229	3,774,976	-	26,675,205
Machinery and equipment	243,282	32,000	-	275,282
Total capital assets being depreciated	23,143,511	3,806,976	-	26,950,487

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

CAPITAL ASSETS (Continued)

Less accumulated depreciation for:				
Improvements	1,909,535	814,084	-	2,723,619
Machinery and equipment	62,212	35,519	-	97,731
Total accumulated depreciation	<u>1,971,747</u>	<u>849,603</u>	<u>-</u>	<u>2,821,350</u>
Total capital assets, being depreciated, net	<u>21,171,764</u>	<u>2,957,373</u>	<u>-</u>	<u>24,129,137</u>
Business-type activities capital assets, net	<u>\$ 29,044,742</u>	<u>\$ 5,022,794</u>	<u>\$ -</u>	<u>\$ 34,067,536</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:

General government	\$ 58,629
Public safety	35,965
Highways and public improvements	790,233
Parks and recreation	<u>168,698</u>
Total depreciation expense – governmental activities	<u>\$1,053,525</u>

Business – type activities:

Water	\$ 562,154
Sewer	287,449
Garbage	<u>-</u>
Total Business-type activities	<u>\$849,603</u>

Commitments – As of June 30, 2005, the City was involved in several projects. Harvest Hills Park is under construction with 1% of the estimated cost of \$1,800,000 expended at year end. The new fire station is 10% completed and is expected to cost \$700,000. The marina pay station is expected to cost \$16,000 and is about 50% completed at year end.

NOTE 8 - CAPITAL LEASE COMMITMENTS

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Building	\$1,121,024
Machinery and Equipment	67,033
Less: Accumulated Amortization	(49,646)
Total	<u>\$1,138,411</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - CAPITAL LEASE COMMITMENTS (Continued)

The following is a schedule of yearly future lease payments under governmental fund-type capital leases together with the present value of net minimum lease payments as of June 30, 2005:

General Fund Equipment - Vehicles

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 9,639	\$ 644	\$ 10,283
2007	9,887	396	10,283
2008	10,142	141	10,283
	<u>\$ 29,668</u>	<u>\$ 1,181</u>	<u>\$ 30,849</u>

Special Revenue Fund Equipment – Boom Lift

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 7,526</u>	<u>\$ 198</u>	<u>\$ 7,724</u>

General Fund Equipment – Mower

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 5,372	\$ 1,094	\$ 6,466
2007	5,641	825	6,466
2008	5,924	542	6,466
2009	6,221	245	6,466
2010	1,603	13	1,616
	<u>\$ 24,761</u>	<u>\$ 2,719</u>	<u>\$ 27,480</u>

General Fund Real Estate – Office Building

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 43,537	\$ 60,656	\$ 104,193
2007	45,655	58,538	104,193
2008	47,876	56,317	104,193
2009	50,205	53,988	104,193
2010	52,648	51,545	104,193
2011	55,209	48,984	104,193
2012	57,895	46,298	104,193
2013	60,712	43,481	104,193
2014	63,666	40,527	104,193
2015	66,736	37,457	104,193
2016	69,808	34,385	104,193

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

2017	73,000	31,193	104,193
2018	76,338	27,855	104,193
2019	79,830	24,363	104,193
2020	83,480	20,713	104,193
2021	87,298	16,895	104,193
2022	91,290	12,903	104,193
2023	95,465	8,728	104,193
2024	99,831	4,362	104,193
2025	42,931	482	43,413
	<u>\$1,343,410</u>	<u>\$679,670</u>	<u>\$2,023,080</u>

The City is acquiring a portion of a building under a long-term leasing arrangement. The building is used for the City's administration. Payments are \$8,682.77 per month from January 2005, until June 2025, at interest rates varying from 4.760% to 4.480%. The building is security for this lease.

The future minimum lease payments under all leases as of June 30, 2005 are:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 66,074	\$62,592	\$ 128,666
2007	61,183	59,759	120,942
2008	63,942	57,000	120,942
2009	56,426	54,233	110,659
2010	54,251	51,558	105,809
2011	55,209	48,984	104,193
2012	57,895	46,298	104,193
2013	60,712	43,481	104,193
2014	63,666	40,527	104,193
2015	66,736	37,457	104,193
2016	69,808	34,385	104,193
2017	73,000	31,193	104,193
2018	76,338	27,855	104,193
2019	79,830	24,363	104,193
2020	83,480	20,713	104,193
2021	87,298	16,895	104,193
2022	91,290	12,903	104,193
2023	95,465	8,728	104,193
2024	99,831	4,362	104,193
2025	42,931	482	43,413
	<u>\$1,405,365</u>	<u>\$683,768</u>	<u>\$2,089,133</u>

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt:

The following is a summary of bond, capital lease and other debt transactions for the City for the year ended June 30, 2005.

Governmental activities:	<u>Capital Lease</u>
Payable – Beginning	\$ 56,090
Retired	(46,346)
Issued	<u>1,395,621</u>
Payable – Ending	<u>\$1,405,365</u>
Due within one year	<u>\$ 66,074</u>
Business-type activities:	<u>Water Revenue Bonds</u>
Payable at Beginning	\$2,244,000
Retired	(63,000)
Issued	<u>0</u>
Payable at Ending	<u>\$2,181,000</u>
Due within one year	<u>\$ 66,000</u>

Bonds payable at June 30, 2005, are comprised of the following individual issues:

Water Revenue Bonds:

\$2,244,000 Water Revenue Bonds Series 2005 due in annual installments of \$63,000 to \$97,000 through March 1, 2013 and balloon payments of \$1,540,000 due March 1, 2014; interest at 5.65% payable semiannually - water charges for service, water impact fees, and other water revenues are pledged as security for these revenue bonds

\$2,181,000

The annual requirements to amortize bonds outstanding as of June 30, 2005, including interest, are as follows:

	<u>Water Revenue Bonds – 2005</u>		
<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 66,000	\$ 123,227	\$ 189,227
2007	69,000	119,497	188,497
2008	73,000	115,599	188,599
2009	77,000	111,475	189,475

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

2010	82,000	107,124	188,124
2011	86,000	102,491	188,491
2012	91,000	97,632	188,632
2013	97,000	92,490	189,490
2014	<u>1,540,000</u>	<u>87,010</u>	<u>1,627,010</u>
	<u>\$2,181,000</u>	<u>\$956,545</u>	<u>\$3,137,545</u>

Subsequent 5-Year Debt Disclosure

The combined principal amounts of bonds payable for the next 5 years and to maturity are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 66,000	\$ 123,227	\$ 189,227
2007	69,000	119,497	188,497
2008	73,000	115,599	188,599
2009	77,000	111,475	189,475
2010	82,000	107,124	188,124
2011	86,000	102,491	188,491
2012	91,000	97,632	188,632
2013	97,000	92,490	189,490
2014	<u>1,540,000</u>	<u>87,010</u>	<u>1,627,010</u>
	<u>\$2,181,000</u>	<u>\$956,545</u>	<u>\$3,137,545</u>

Interest included as Direct Expense

Interest expense of \$39,891 is shown separately in the governmental activities and none is included in the functions of the governmental activities.

NOTE 10 - RETIREMENT PLAN

Local Governmental - Cost Sharing

Plan Description. City of Saratoga Springs contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Firefighters System for employers with Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 - RETIREMENT PLAN (Continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. City of Saratoga Springs is required to contribute a percent of covered salary to the respective systems, 11.09% to the Noncontributory and 8.61% to the Firefighters System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

City of Saratoga Springs contributions to the Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$89,406, \$59,871 and \$39,019 respectively; and for the Firefighters System the contributions for June 30, 2005, 2004 and 2003 were \$4,701, \$4,302 and \$752 respectively. The contributions were equal to the required contributions for each year.

401-K Plan

The City has also established a 401-K (defined contribution system) with the Utah Retirement System. The City has made contributions for June 30, 2005, 2004, and 2003 of \$8,206, \$9,157 and \$7,559 respectively.

NOTE 11 – CONTINGENCIES AND SUBSEQUENT EVENTS

Litigation - The City is a defendant in certain legal actions and pending actions, or in process for miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. City management is of the opinion that the final outcome of the cases will not have an adverse material affect on the City's financial statements.

NOTE 12 - RESTRICTED AND RESERVED FUND BALANCES

Capital Projects Fund

An amount is set aside for Impact Fees not yet expended	\$4,254,426
---	-------------

General Fund

Unspent portion of "C" Road Funds	293,750
-----------------------------------	---------

CITY OF SARATOGA SPRINGS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 12 - RESTRICTED AND RESERVED FUND BALANCES (Continued)

Sewer Fund

An amount is set aside for impact fees not yet expended	995,570
---	---------

Water Fund

An amount is set aside for impact fees not yet expended	669,415
---	---------

An amount is set aside for purchase of water rights	<u>146,924</u>
---	----------------

Total	<u>\$6,360,085</u>
-------	--------------------

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for some of these risks. Various policies are purchased through insurance agencies to cover life, health, workers compensation, and other employee related policies. The City also participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. Settled claims resulting from these risks have not exceeded its coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SARATOGA SPRINGS
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variances with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 958,600	\$ 1,081,500	\$ 1,119,415	\$ 37,915
Licenses and permits	571,450	659,400	674,756	15,356
Intergovernmental	93,497	195,688	204,890	9,202
Charges for services	932,351	1,299,510	1,307,089	7,579
Miscellaneous revenue	20,000	57,200	57,342	142
Total revenue	<u>2,575,898</u>	<u>3,293,298</u>	<u>3,363,492</u>	<u>70,194</u>
EXPENDITURES				
Current:				
General government	859,381	2,188,595	2,131,993	56,602
Public safety	969,528	1,199,261	1,178,956	20,305
Highways and public improvements	697,623	799,137	690,197	108,940
Parks and recreation	116,099	127,317	139,956	(12,639)
Debt service:				
Principal retirement	-	36,891	36,846	45
Interest and fiscal charges	-	39,564	39,091	473
Total expenditures	<u>2,642,631</u>	<u>4,390,765</u>	<u>4,217,039</u>	<u>173,726</u>
Excess revenues over (under) expenditures	<u>(66,733)</u>	<u>(1,097,467)</u>	<u>(853,547)</u>	<u>243,920</u>
Other financing sources (uses)				
Capital lease proceeds	-	1,387,000	1,395,621	8,621
Transfers out	-	(808,091)	(428,681)	379,410
Total Other Financing Sources (Uses)	<u>-</u>	<u>578,909</u>	<u>966,940</u>	<u>388,031</u>
Net change in fund balance	(137,616)	(518,558)	113,393	631,951
Fund balances - beginning of year	873,615	873,615	873,615	-
Fund balances - end of year	<u>\$ 735,999</u>	<u>\$ 355,057</u>	<u>\$ 987,008</u>	<u>\$ 631,951</u>

The notes are an integral part of the financial statements.

OTHER REPORTS

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Saratoga Springs
Saratoga Springs, UT

January 24, 2006

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Saratoga Springs as of and for the year ended June 30, 2005, which collectively comprise the City of Saratoga Springs' basic financial statements and have issued our report thereon dated January 24, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

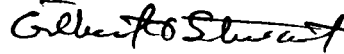
Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Saratoga Springs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Saratoga Springs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the State Auditor, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART

**CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION**

**RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H. PROBST, C.P.A.**

**SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.**

**190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622**

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

**Honorable Mayor and City Council
City of Saratoga Springs
Saratoga Springs, UT**

January 24, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Saratoga Springs for the year ended June 30, 2005, and have issued our report thereon dated January 24, 2006. As part of our audit, we have audited City of Saratoga Springs' compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

**Class "C" Road Funds (Department of Transportation)
Liquor Funds (Utah State Tax Commission)**

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of City of Saratoga Springs's financial statements.)

**Emergency 911 Training Grant
Fire Department Assistance Grants**

Our audit also included test work on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Liquor Law Enforcement**

**B & C Road Funds
Special Districts
Other Compliance Requirements
Department of Commerce - Building Permits
Impact Fees
Asset Forfeitures**

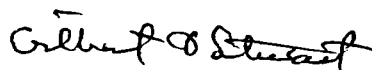
The management of City of Saratoga Springs is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, City of Saratoga Springs complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

**CITY OF SARATOGA SPRINGS
MANAGEMENT LETTER**

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

January 24, 2006

Honorable Mayor and City Council
City of Saratoga Springs
Saratoga Springs, UT

We have completed our audit of the financial statements of City of Saratoga Springs for the year ended June 30, 2006 and have issued our report thereon dated January 24, 2006. Professional Standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated October 31, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Saratoga Springs. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Saratoga Springs are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process. We did propose and make certain reclassifying, and closing entries to properly reflect required recognition of revenues, expenses, and financial position in accordance with U.S. generally accepted accounting principles.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Utah State Compliance Findings - Current Year

05-1. Budgetary Compliance

Finding: The City exceeded the adopted budget in the Parks and Recreation Department.

Recommendation: The City should make the proper adjustments so budgeted expenditures are not exceeded.

City's Response: We concur and will monitor the budget and make amendments as needed.

05-2. Other General Compliance

Finding: The fund balance of the General Fund exceeds the amount allowed by law.

Recommendation: The fund balances should be decreased to be within the amounts allowed by the Utah Code.

City's Response: We will make the proper adjustments to the General Fund balance.

Utah State Legal Compliance Findings - Prior Year

04-1 Budgetary Compliance

Finding: The City exceeded the adopted budget in the Highways and Public Improvements Department.

Recommendation: The City should make the proper adjustments so budgeted expenditures are not exceeded.

Auditor's Response: See current finding 05-1.

04-2 Other General Compliance

Finding: The fund balance of the General Fund exceeds the amount allowed by law.

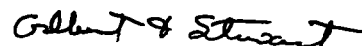
Recommendation: The fund balances should be decreased to be within the amounts allowed by the Utah Code.

Auditor's Response: See current finding 05-2.

We wish to express our appreciation to the City personnel for the friendly and enthusiastic help extended to us during the course of examination.

This information is intended solely for the use of the City Council and management and should not be used for any other purpose.

Sincerely,



GILBERT & STEWART
Certified Public Accountants



SARATOGA SPRINGS

April 4, 2006

Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite # E310
P.O. Box 142310
Salt Lake City, UT 84114-2310

Dear MacRay A. Curtis:

The purpose of this letter is to respond to your request for a written corrective action plan to address each area of noncompliance found in our audit for the year ending June 30, 2005. There were two findings as shown below:

Finding #05-1 Budgetary Compliance – The city exceeded the adopted budget in the Parks and Recreation Department.

Finding #05-2 Other General Compliance – The fund balance of the General Fund exceeds the amount allowed by law.

The plan we have to address these issues begins with the city employing a full time accountant (which has already been done) to oversee the financial reporting and budgetary compliance policies of the city.

Corrective action Plan:

In regards to finding #05-1, the city accountant will monitor the budget regularly and be responsible for disallowing over-expenditures and/or proposing budget amendments as needed.

In regards to finding #05-2, the city accountant, together with the city treasurer, will monitor the General Fund balance regularly and make the proper adjustments to see that the balance does not exceed the amount allowed by law.

The city accountant is Christopher Pavia and the city treasurer is Marsha Paskett. They can be reached at 801-766-9703.

Sincerely,

Christopher E. Pavia
City Accountant